

**STATEMENT OF
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**BEFORE THE
HOUSE COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON TRANSPORTATION, HOUSING,
AND URBAN DEVELOPMENT**

**THE MARITIME ADMINISTRATION'S
FISCAL YEAR 2016 BUDGET REQUEST**

March 19, 2015

Good morning Chairman Diaz-Balart, Ranking Member Price, and Members of the Subcommittee. I am pleased to appear before you today, and I thank you for the opportunity to discuss the President's Fiscal Year (FY) 2016 budget priorities and initiatives for the Maritime Administration (MARAD). This budget request supports MARAD's mission to foster, promote and develop the U.S. Merchant Marine and it reflects MARAD's priorities of maintaining security and preparedness, investing in mariner training, enhancing U.S.-flag competitiveness and fostering environmental sustainability. MARAD's FY 2016 Budget Request is \$406.8 million, which funds activities supporting ships and shipping, port operations, vessel operations, national security and strategic mobility, ship disposal, environmental sustainability, safety and education. A summary of the FY 2016 request is provided below.

Maritime Security Program (MSP)

For FY 2016, \$186 million is requested for the MSP, which is the level of funding authorized in the National Defense Authorization Act of FY 2013, P.L. 112-239. Funding at this level will enable DOT to continue to maintain a U.S.-flag merchant fleet operating in international trade, crewed by U.S. mariners, and available to serve the Nation's homeland and national security needs.

The MSP provides operating assistance funds to a fleet of 60 commercial privately-owned, militarily useful, U.S.-flagged, and U.S.-crewed ships. The MSP fleet ensures military access to a global fleet of ships in ocean-borne foreign commerce with the necessary intermodal logistics capability to move military equipment and supplies during armed conflict or national emergency. MSP vessels have been key contributors to our Nation's efforts in Afghanistan and Iraq over the last decade, moving over 50 percent of all military cargo – over 26 million tons – to the Middle East. Since 2009, MSP carriers have moved over 90 percent of the ocean-borne cargo needed to support U.S. military operations and nation building programs in both countries. The MSP also provides critical employment for 2,400 U.S. merchant mariners, creating a reliable pool of mariners ready to support the activation of the U.S. Government's reserve sealift fleets including MARAD's Ready Reserve Force (RRF). Without MSP, there would likely be a significant reduction in the number of U.S.-flag vessels and U.S. mariner jobs. The result would be fewer U.S. mariners available to crew RRF vessels, adversely impacting surge sealift readiness.

The most significant challenge facing the MSP is declining Department of Defense (DoD) cargo due to the drawdown of operations in Iraq and Afghanistan coupled with the over 80 percent reduction in personnel and military bases overseas. Today, DoD-impelled cargos are consistent with the levels last seen in the late 1990s.

National Defense Reserve Fleet (NDRF)/ Ready Reserve Force (RRF)

MARAD manages and maintains a fleet of government-owned merchant ships in the NDRF, which includes 46 RRF vessels that are maintained in an advanced state of surge sealift readiness to complete vessel activations to support military requirements. The RRF vessels and the six NDRF school ships may also be called upon to provide relief effort and humanitarian assistance in times of national emergency. This was the case when an RRF ship was activated in late 2014 to provide support to the U.S. contribution to the medical mission to Liberia for the Ebola Virus response. Each vessel can be configured to support other emergent situations, such as the CAPE RAY which was used in the international effort to destroy the Syrian Government's declared chemical weapons, completed in August of 2014. Funding provided by a reimbursable agreement from DOD will allow MARAD to continue providing ready surge sealift support in FY 2016 in the areas of activating, operating, deactivating and special mission requirements for RRF vessels and maintaining MARAD's NDRF fleet sites.

Food Aid Reform

The President's FY 2016 Budget Request includes \$25 million as a component of Food Aid reforms proposed for P.L. 480 Title II food aid that would provide flexibility to deliver emergency food where appropriate such as in conflict situations and logistically difficult crises and would allow about 2 million more people in emergency crises to be reached without additional resources. If the reform is enacted, the vast majority of P.L. 480 Title II food aid would continue to be sourced and shipped from the U.S. The additional funding would initiate a program to mitigate the impact that such reforms could have on mariner jobs. Most of the request would be devoted to provide direct stipend payments to operators of vessels in foreign trade, separate from MSP payments. These additional funds would support training programs to retain and educate U.S. mariners in critical occupations to preserve mariner employment on U.S.-flag vessels. We anticipate using what we learn in this initial year to develop the program.

Maritime Training Programs

The President's FY 2016 Budget Request continues important investments in MARAD's training programs, the U.S. Merchant Marine Academy (USMMA) and the six State Maritime Academies (SMA), to provide highly trained, USCG-credentialed officers for the U.S. Merchant Marine. These programs graduate the majority of new merchant marine officers who hold a USCG credential with the highest entry-level officer endorsement available to support our national maritime industry infrastructure. These graduates ensure our Nation has a cadre of well-educated and trained merchant mariners in the event of a contingency or national emergency, as well as to meet national security needs in support of military, emergency and humanitarian missions.

United States Merchant Marine Academy (USMMA or Academy)

The President's FY 2016 Budget Request includes \$96 million for USMMA. Of this, \$71.3 million will support Academy operations and \$24.7 million will fund major capital improvements and repairs to the Academy's physical campus. The FY 2016 request will maintain a sufficient base budget to support mission-essential program requirements and security priority areas. Funding will enable the Academy to effectively achieve its core responsibility of providing the highest caliber academic study with state of the art learning facilities for the Nation's future merchant marine officers and maritime transportation professionals. The Academy anticipates graduating 235 licensed merchant marine officers for service in the maritime industry and the U.S. Armed Forces in 2016. Nearly all USMMA graduates receive either an active duty or reserve commission in the U.S. Armed Forces or one of the uniformed services (National Oceanic and Atmospheric Administration or Public Health Service) and provide a guaranteed source of mariners to crew government surge sealift vessels.

Over the last several years, there has been significant progress made to improving institutional management and oversight, and strengthening internal controls at the Academy. This will continue to be an area of priority emphasis in FY 2016. Additionally, Academy leadership has taken a number of actions to prevent and respond to incidents of sexual harassment and sexual assault at the Academy, including hiring a new Sexual Assault Response Coordinator, establishing an Action Plan to address sexual harassment and sexual assault, and improving oversight of the implementation of that plan. Academy procedures for reporting incidents that occur while Midshipmen are at sea training have also been updated, as well as improving campus security and establishing a 24/7 reporting hotline.

State Maritime Academies (SMA)

The request also includes \$34.6 million for the SMA program, of which will fund \$5 million for National Security Multi-Mission Vessel planning and design to support the replacement of the 53-year-old training vessel EMPIRE STATE, and \$22 million to fund maintenance and repair costs for all federally owned training ships on loan to the SMAs. Additionally, the request includes \$2.4 million to fund the Student Incentive Payment program, \$3 million for operational support to each of the six SMAs, and \$1.8 million for training ship fuel.

The SMAs regard the SIP program and support for their training ships as among the most important recruiting tools to encourage potential Cadets to pursue careers as merchant marine officers. MARAD anticipates approximately 660 students in the license program will graduate from the SMAs in 2016. The SMA program contributes more than two thirds of the entry-level licensed mariners trained annually that begin working in various positions within the maritime industry.

Maritime Guaranteed Loan Program (Title XI)

The President's FY 2016 budget request includes \$3.1 million for administration of the Maritime Guaranteed Loan Program, commonly referred to as Title XI. The Title XI program encourages investment in the maritime sector and promotes the growth and modernization of the U.S. Merchant Marine and U.S. Shipyards. Title XI offers loan guarantees for shipyard modernization projects and for building vessels in U.S. shipyards. The Title XI loan guarantees enable applicants to secure long-term financing at favorable interest rates, thereby sustaining facilities for the Nation's shipbuilding and ship repair industry and promoting capacity and jobs.

The current portfolio is \$1.6 billion in Title XI outstanding loan guarantees and 38 individual loan guarantee contracts, representing 21 companies covering approximately 250 vessels. The Title XI subsidy balance for new loan applicants is currently \$42 million, which will support approximately \$454 million in shipyard projects, assuming average risk category subsidy rates.

Ship Disposal

The FY 2016 Budget Request for the Ship Disposal Program is \$8 million to support the continued priority emphasis on the disposal of non-retention NDRF vessels in the worst condition. MARAD currently has 19 obsolete vessels not yet under contract for disposal, which is a historic low. With the requested funding level in FY 2016, MARAD plans to remove up to eight additional obsolete ships through competitive vessel sales from the James River, Beaumont, and Suisun Bay Reserve Fleets (SBRF). The level of competition and available capacity, however, have decreased significantly as a result of the U.S. Navy award of recycling contracts for four aircraft carriers in FY 2014 and FY 2015. Currently, three aircraft carriers are undergoing dismantlement, with the fourth carrier scheduled to arrive for disposal in June 2015. The contracts for dismantlement of the aircraft carriers have a two-year period of performance and, as such, will reduce capacity at qualified recycling facilities, which is expected to increase MARAD's cost to dispose of ships in FYs 2016 and 2017.

MARAD is currently two years ahead of the SBRF vessel removal schedule required by the court-ordered settlement with the State of California. With 52 of the 57 vessels already removed, MARAD expects to dispose of an additional three vessels from the SBRF in FY 2015 primarily using carryover funding. The requested funding in FY 2016 will allow MARAD to dispose of the two remaining SBRF vessels. Funding in the President's FY 2016 Budget Request will also cover the costs related to risk mitigation for compliance with the National Invasive Species Act and Clean Water Act, as well as lessen environmental risks at the fleet sites and recycling facilities.

Nuclear Ship SAVANNAH

The President's FY 2016 Budget Request includes \$3 million for the inactive Nuclear Ship SAVANNAH, providing for the continuation of support activities, including nuclear license compliance, radiological protection, ship maintenance and custodial care, and planning and preparation for decommissioning.

Maritime Environment and Technology Assistance

The President's FY 2016 Budget Request includes \$4 million for energy and environmental technology initiatives designed to enhance maritime sustainability and affordability. The program will continue to focus on initiatives in areas such as reducing air pollution from vessels and port operations, controlling invasive species through ballast water treatment and underwater hull cleaning and inspection, improving and diversifying marine propulsion systems, and increasing energy efficiency at sea.

These items represent key policy proposals and initiatives highlighted in the President's FY 2016 Budget. We will continue to keep this Committee apprised of the progress of our program activities and initiatives in these areas in the coming year.

Mr. Chairman, thank you for the opportunity to present and discuss the President's FY 2016 Budget Request for MARAD. I appreciate the Subcommittee's continuing support for maritime programs and I look forward to working with you on advancing maritime transportation in the United States.

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